FINANCE POLICIES FOR SMALL INDUSTRIES IN FIVE ASIAN COUNTRIES

ASIAN PRODUCTIVITY ORGANIZATION

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Nature

Inter-governmental regional organization established by Convention in 1961, and open to Asian countries that are members of the Economic Commission for Asia and the Far East.

Present Membership

Ceylon	Iran	Philippines
Republic of China	Japan	Singapore
Hong Kong	Republic of Korea	Thailand
India	Nepal	Viet Nam
Indonesia	Pakistan	

Organization

1. Governing Body composed of Directors designated by respective member countries, as the policy-making body.
2. Secretariat consisting of international staff and situated in Tokyo, as the executive arm.

Objectives

To increase Productivity and, consequently, accelerate economic development in the Asian Region, by mutual cooperation on a multi-lateral basis. This is achieved by:

1. Establishing linkage between productivity & economic growth
2. Fostering mutual cooperation
3. Dissemination of knowledge
4. Manpower development
5. Assisting national activities
6. Stimulating the productivity movement

Activities

Conferences	Technical Expert Services	Symposia
Research	Seminars	Surveys
Training Courses	Study Missions	Fellowships
Publications	Audio-Visual Productions	Translations
Public Relations		

Special Features

The Asian Productivity Year (APY) is being observed this year with "Prosperity through Productivity" as the motto and "Quality-Reliability" as the theme.

FINANCE POLICIES FOR SMALL INDUSTRIES IN FIVE ASIAN COUNTRIES

An On-the-Spot Survey in the Republic of China, the Philippines, Thailand, Singapore and Malaysia (With Additional Information Concerning India, the Republic of Korea and Pakistan)

Translation Series – 12

ASIAN PRODUCTIVITY ORGANIZATION
September, 1969

CONTENTS

APO Introduction to the English Version

This report on the policies of financing medium and small industries in Asian countries appeared in the April, 1969, issue of *Shoko Kinyu* (Commercial and Industrial Cooperatives Financing), the monthly Japanese-language organ of the Central Bank for Commercial and Industrial Cooperatives. It was based on an on-the-spot investigation which was conducted by Mr. Hiroshi Tanaka, Research Officer of the bank, when he toured the Republic of China, the Philippines, Thailand, Singapore and Malaysia from September to October, 1968. He accompanied Mr. Seifu Aburatani, Executive Director, Overseas Technical Cooperation Agency, a semi-governmental organization affiliated with the Japanese Ministry of Foreign Affairs, which promotes Japan's technical cooperation with foreign countries. The bank is a semi-governmental financial organ serving various cooperative associations, as well as their members, in both the commercial and industrial lines.

Because the investigation was conducted during a short duration and also because the data collected was considered to be insufficient, it is believed that some statements in the report may not be accurate, but it is hoped that the reader could at least get a good idea about the finance policies for small industries implemented in countries such as Korea, India and Pakistan which were added to the report on the basis of data available to the writer in Japan.

To make this translation even more useful, an appendix consisting of material developed in connection with an APO symposium on small business development, held in Madras and Hyderabad, India in 1966 follows Mr. Tanaka's report. The appendix has been taken from APO papers and documents collectively published under the title of "Symposium on Small Business Development (APO Project No. SYP/II/66)." Information on small industry financing is included in this publication for the Republic of Korea, the Philippines, Thailand, India and Nepal.

Detailed information on financing policies for small and medium business in Japan, is Vol. 9 of the APO Translation Series called *"Outline of Policy for Smaller Enterprises — Japanese Experience."* This publication is written from a different point of view.

Introduction

Every country in Asia has come to recognize the important role of medium-and small-scale industries (that is, medium and small manufacturing industries) in economic development. In all the Asian countries covered by this report, there are government agencies organized with the special objective of fostering smaller industries. The development of these small industries are also prominently featured in their economic plans The following facts are believed to be the reasons for the emphasis laid on the fostering of smaller industries.

Right after their recovery of independence and sovereignty, all these countries, out of the necessity to plan speedy industrialization, gave priority to the transplanting of modern basic and related industries from the advanced countries. (Thailand which has been an independent kingdom since long before World War II was no exception.) Consequently, some of them took root. Thus the countries have reached a fairly advanced stage of industrialization. On the other hand, there is a wide gap between the transplanted modern industries and agriculture and the indigenous industries, which hampers a balanced economic development. This is evidenced by the following facts: (a) private efforts for development are weak, (b) the domestic markets are limited, (c) these restrain the sales of modern industries and (d) the lack of subsidiary or subcontracting industries compels the large industries to import parts and raw materials. In such countries as China, Korea, India and Pakistan, which began industrialization ahead of other Asian countries, things are rather different due to their recent rapid economic development.

To adjust these imbalances and thereby attain a balanced economic development, it is necessary to develop the traditional indigenous industries, which were often ignored, and it is particularly important to foster small industries capable of supplementing the modern industries. The fostering of small-scale industries is also vital to the improvement of the national standard of living and formulation of an employment policy. A greater part of the people of a number of Asian countries are still engaged in low-productivity agriculture with a massive jobless population hidden in the rural villages. To provide them with jobs and increase national income, it is necessary that a country, which is poor in accumulated capital, should foster small enterprises which can be started with little capital and bring about the benefits to be gained from employment. They will also contribute toward effective utilization of domestic resources and saving of foreign exchange reserves through the substitution of their products with imported products. Their development will further lead to adjustment of the economic imbalance between the urban and rural districts.

Every Asian country has become poignantly aware of the role of small industries in industrialization and improvement of the national living standard, and this awareness is behind the fact that the fostering of small industries has come into the limelight in the Asian countries and that some reflection is being made on their large industry-centered industrialization attitudes with an inclination appearing to give priority to the development of backward industries. (H.T.)

I. SMALL INDUSTRIES IN ASIAN COUNTRIES

Concept of a "Small Industry"

Needless to say, the concept of "medium-and small-scale enterprises" used in Japan does not hold true for other Asian countries because their economic structures and their economic development stages are different. Let me describe, in brief, the features of small industries in Asian countries other than Japan. It is difficult, however, to speak in general terms of the features because the small industries of China, Korea, India and other relatively developed Asian countries, which began industrialization ahead of other Asian countries, are at industrial stages different from those of the less developed Asian countries, yet I dare to mention some general features common to the small industries in all the countries.

Although industries, large or small, in Asia vary from country to country, they can broadly be classified into four categories: (1) governmental or semi-governmental large industries (iron, steel, electric power and other key industries), (2) large industries with foreign technical tie-ups or joint ventures with foreign corporations, (3) small manufacturing industries (producing foods, apparel, sundry goods and other consumer products for daily use), and (4) household industries (producing handwoven textiles, wooden, bamboo, rattan, metal and other traditional products for daily use).

Industries in (3) and (4) above are "small industries" but those in (4) are sometimes called "cottage industries" or "handicraft industries." Those in (3) are modern small industries where machines are operated by hired workers, whereas those in (4) are cottage or rural industries closely associated with agriculture or urban household industries run by the employment of craftsmen. (The manufacturing industries of a developing country in Asia or any other part of the world are polarized into two segments with little or no connection maintained between them. In other words, one segment comprises large industries as given in (1) and (2) above, and the other embraces small industries.)

The household industry with its narrowly-limited market produces a traditional product for daily use or folk art articles or special produce with locally available raw materials. Some examples are the hand-weaving of cotton and silk, wax-resist (batik) dyeing, in Malaysia; silk weaving, gold and silver work, and lapidary craft in Thailand, wood carving, bamboo and rattan ware, shell ware in the Philippines, carpets, leather ware and ivory carving in India and Pakistan, ceramics, rugs, embroidery, vegetable oil and tea in other countries. The household industries seldom use power-driven machines. Many of them are controlled by middlemen (Chinese and other merchants) in procuring capital and raw materials and in selling their products, which are, in many instances, produced by order from middlemen.

The household industries carry a fairly great weight in the manufacturing sector of an Asian country, but mainly in the urban areas a considerably large number of modern small industries [as given in (3) above] have come into existence. Their growth is particularly remarkable in China, Korea, India, Pakistan and Singapore. In Thailand and Malaysia where Chinese merchants' influence is strong, many middlemen have come to reinvest their capital in modern small industries.

The modern small industries have more or less larger markets than the household industries and mostly produce substitutes for imported consumer products for daily use, such as foods, apparel and other textile products, furniture, footwear, soap, matches, plastic products and metal ware for household use. In India, and other countries, small industries have been tooled up in the bicycle, sewing machine, other light machinery and metal processing lines. In such countries which began industrialization ahead of other countries in Asia as China, Korea and India, modern small industries are "growing up" as the subsidiaries or subcontractors of the large industries mainly in the machinery line. In India, small industries of this kind are called the "ancillary industries," which are grouped in the industrial estates constructed around state-run machine tool and other factories. Furthermore, in Taiwan a number of modern small industries are growing up as the subcontractors of large electronics industries.

In the preceding paragraphs I have sketched the general features which are believed to be common to the small industries in the Asian countries. Definitions of their small industries given by Korea, China, the Philippines, Singapore, Thailand, India and Pakistan are shown in Table 1.

TABLE 1. DEFINITIONS ON SMALL INDUSTRIES

Country	No. of employees	Capital or assets	Source of definition
Korea	5-200 (5-300 for mining and transport)	Total assets worth 3,000,000 won (circa US$111,940) or less	Medium Industry Bank
China	100 or less (for manufacturing and handicraft); 50 or less (for commerce, transport and service industries)	Total assets worth 5,000,000 yuan (circa US$125,000) or less (for manufacturing and handicraft) or annual sales worth 5,000,000 yuan or less (for commerce, transport and service industries)	Small Business Division, Executive Yuan (Council)
Philippines	5-100	Per-employee capital worth 4,000 pesos (circa US$1,028) or less	Institute for Small-Scale Industries, University of the Philippines
Thailand	50 or less	Capital fixed assets worth 2,000,000 bahts (circa US$100,000) or less	Department of Industrial Promotion, Ministry of Industry
Singapore	50 or less	Fixed assets (except buildings) worth M$250,000 (circa US$89,645) or less	Light Industries Services, Economic Development Board
Pakistan		Fixed assets worth Rs. 500,000 (circa US$104,600) or less	-
India	49 or less for industries using power-driven equipment; 99 or less for industries not using power-driven equipment	Fixed assets worth Rs. 500,000 (circa US$66,667 or less Rs. 1,000,000 (circa US$133,333) for designated industries	Central Small Industries Organization, Ministry of Industry and Supply

(Nearly all countries in Asia from the necessity of formulating policies for small industries have come to define their dimensions of employment, assets and/or capital)

As indicated in Table 1, the scale of small enterprises in the countries is smaller than the scale of their Japanese counterparts. The enterprises in small industries are mostly managed by family units. The number of employees even of a modern one are not more than ten, and the majority of the household industries have one to two employees. The average employees per manufacturing enterprise in Korea number about 20, and the figure for China is less than ten, as shown in Table 2. The figure for Thailand is no more than three.

TABLE 2. MANUFACTURING ENTERPRISES BY EMPLOYEES IN CHINA AND KOREA

China

Size of enterprise by employees	No. of enterprises	Percentage distribution	Total no. of employees	Percentage distribution
10 or less	46,487	89.6%	141,121	31.1%
11 to 30	3,872	7.5%	63,985	14.1%
31 to 100	1,163	2.2%	56,482	12.4%
101 or more	387	0.7%	192,684	42.4%
Total:	51,909	100%	454,272	100%

Source: Industrial Census, 1961

Korea

Size of enterprise by employees	No. of enterprises	Percentage distribution	Total no. of employees	Percentage distribution
5 to 9	10,132	55.3%	60,564	15.1%
10 to 20	5,968	32.6%	86,538	21.5%
30 to 90	1,678	9.2%	81,069	20.2%
100 to 199	295	1.6%	38,651	9.6%
200 or more	237	1.3%	135,159	33.6%
Total:	18,310	100%	401,981	100%

Source: Mining and Manufacturing Census, 1963

Even the large private enterprises in these countries have 200 to 300 employees with a few state-run enterprises having more than 1,000 employees. It is one major feature common to them that there are a few large enterprises and many small enterprises but very few medium-size enterprises.

Problems Facing Small Industries

As already noted above, the concept of "medium-and small-scale enterprises" of Japan does not hold true for other Asian countries. So problems facing the small enterprises of Asia should naturally differ from those which the Japanese smaller enterprises face. Compared to Japan, a wide difference exists in the sense that practically no problems exist between the large and small industries. In an Asian country other than Japan, as mentioned earlier, there are the modern large industries transplanted from abroad and the small indigenous industries with little or no affiliation between them. Very few small industries are affiliated with large ones on a subcontracting basis. Hence such problems in Japan such as large enterprises' sacrificing their subcontractors and the presence of competition between large and smaller enterprises do not exist.

Of course, there is no problem of labor shortage or any problem of over-competition as in Japan. In these countries a seller's market prevails because more industries are needed everywhere and because imports are restricted to protect domestic industries or to save foreign exchange reserves. Hence there is practically no reason why the industries should be involved in over-competition. It should be noted, however, that in China, India and other countries where industrialization is advanced, the recent rapid growth of small industries has made competition more keen.

Problems which the small industries in the countries confront are not those mentioned above but the problem of securing raw materials in addition to technological and other problems liable to occur during the basic stage of production. One major problem is the difficulty of procuring raw materials and parts for manufacturing products. The countries whose key industries are not fully developed are not self-sufficient in materials and parts and must import them from abroad. Restrained by the shortage of

foreign exchange reserves, they find it difficult to procure them. It is particularly difficult for small industries to get quotas of foreign exchange reserves and those which are not plagued with such a problem are limited to a few such as may be seen in Thailand and Singapore. Also, concerning domestic raw materials, it is difficult for small industries to procure materials of good quality at reasonable prices. The difficulty of raw materials procurement has lowered the rate of operation in small industries, and the use of low quality materials has degraded the very quality of their products. Furthermore, the difficulty of importing spare parts has often resulted in permitting machines to be idle and unrepaired. There are also many cases in which middlemen who control the supply of raw materials to household industries gain staggeringly high profits. This has induced the government or cooperative associations, as in Malaysia and Indonesia, to adopt the policy of making collective purchases of raw materials and supplying them to small industries.

The next problem which is no less important is the low level of technology. In the countries where education is yet to spread, with a short history of industrialization, it is little wonder that the technological level is still low. Since even products of low quality tolerably satisfied the demand of the limited local markets, the technological level was not required to be very high. This has often made it difficult to encourage household industries to export their products, which are uneven in quality and standards.

The shortage of technicians and skilled workers is acute, with the few technicians mostly employed by large industries while skilled workers in small industries were often hired away by large industries. This makes small industries feel the labor shortage all the more keenly, and contributes to continuation of old-fashioned techniques. In this connection the production of varied products in small quantities is prevalent among the small industries, and the underdevelopment of division of labor compels them to process materials and convert them into finished products by themselves to the deterioration of their operation efficiency and productivity.

There is an even more fundamental problem: the insufficiency of social capital for electric power, highway, harbor and other infrastructural facilities. All the countries render strenuous efforts

for developing facilities through their economic plans and other means, but generally speaking, the efforts are still insufficient, which is particularly notable in the rural districts. There still remain many districts where no electric power is available, and the lack of means of transportation often makes it impossible to transfer products from one district to another.

Last but not least is the financial problem. Before discussing it, mention must be made of financial features of the countries. In a developing country in Asia or any other part of the world, financial markets are not so systematically organized as to be able to work integrally on a nation-wide scale and tend to be divided into an organized urban market consisting of a central bank and modern commercial banks (including foreign banks) and an unorganized rural market for indigenous financial organs or money-lenders. There is hardly any flow of capital, or other relations, between the two markets, which exist independently of each other, and the weight of the unorganized market on the whole is fairly high. In Korea, for example, there are the public and private finance markets. In the private market, there are the mutual finance organs called "kei." It is said that one-third of Korea's private loans are provided by them. One of India's private financial markets is called the "bazaar" which is controlled by money-lenders and the indigenous bankers called "saoukars." It is said that nearly 40 per cent of India's loans are handled through the bazaars. Concerning interest rates, there is a wide difference between the public and private finance organs. The interest rates for the public finance organs are determined by the demand-and-supply relationship of capital with no wide difference from interest rates of the advanced countries, whereas the interest rates for the private finance organs are higher than those for the public finance organs because of the coverage of greater risks by the private organs and the insufficient value of assets given as collateral for loans.

Another financial feature is that commercial banks mainly provide short-term commercial loans (centered around foreign trade) with very few loans (particularly long-term loans) provided for industry. Recent industrial development has resulted in a kind of increase in loans for industry, but still a greater part of the loans from commercial banks go to commerce from which loans can be collected safely and in a short duration rather than industry where the risks involved in loans are still great.

A rough sketch of the financial conditions in Asia is given above, but the small industries are mostly excluded from the modern financial market, and it is extremely difficult for them to obtain loans from commercial banks.*

Even if a loan is available, requirements for providing collateral against it are very strict (in Thailand, for example, it is said that the requirements of a commercial bank are as strict as those of a pawnbroker) and the rate of interest is high. In China the annual rate of interest on a loan with real estate as collateral is 13 to 14 per cent. In Thailand the same rate ranges normally from 11 to 14 per cent, and in addition, an exhorbitantly high commission is paid to a "comprador". Therefore, most small enterprises make it a rule to procure capital by themselves and also through their relatives and acquaintances or through money-lenders. But the annual rate of interest on capital procured through money-lenders is as high as 20 to 30 per cent. In Thailand and Korea, the same rates are as high as 30 to 50 per cent. Many cottage industries in rural areas are controlled by middlemen who provide capital and compel the cottage-industry entrepreneurs to sell them products at unreasonably low prices.

As can be seen above, it is very difficult for the small industries in the Asian countries to obtain commercially workable loans for a long duration and at a low interest rate. This greatly hampers their modernization. And, this is the reason why the governments of the countries have come to establish special organs for financing small industries. Financial organizations in the Asian countries are given in Table 3.

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*In Korea, China, India and other countries it is noted that the financing of small industries is done by commercial banks (China and Korea have private organs which specialize in financing small industries), but the ratio of their financing of small industries to their financing of all industries is very low. Korea's ratio of loans, provided by its commercial banks for small industries in the balance of loans provided by the banks for all its industries, is less than 15 per cent. (The figure for Japan was 30 per cent as of the end of September 1968.)

TABLE 3. FINANCIAL ORGANIZATIONS IN THE ASIAN COUNTRIES.

Country	Central bank	No. of commercial banks	No. of foreign banks	Special finance organs (including national banks)	Finance organs for small industries
Korea	Bank of Korea	8	6	Korean Reconstruction Bank; Korea Exchange Bank; Agricultural Cooperatives, and Federation thereof	Medium Industry Bank; Citizen's National Bank; mutual finance organs ("kei"); agricultural cooperatives
China	Central Bank of China	5	5	Bank of Taiwan; Bank of Communications; Farmers' Bank of China; Central Trust of China	Cooperative Bank of Taiwan; credit cooperatives; mutual loan & savings companies; agricultural associations' credit departments; Small Business Division, Council for International Economic Cooperation and Development, Executive Yuan
Philippines	Central Bank of the Philippines	11	4	Development Bank of the Philippines; Philippine National Bank; Postal Savings Bank	NACIDA; rural banks; savings and mortgages associations; trust companies
Thailand	Bank of Thailand	16	13	Industrial Finance Corporation of Thailand; Government Savings Bank for Cooperatives	LOSID, Ministry of Industry; pawn shops ("shantang") goldsmiths
Malaysia	Bank Negara Malaysia	21	16	Malaysian Industrial Development Finance Ltd.; National Investment Co., Ltd.	MARA, finance companies
Singapore		34		Postal Savings Bank; Finance Division, Economic Development Board*	Light Industries Services, EDB
Pakistan	State Bank of Pakistan	63	20	Pakistan Industrial Credit and Investment Corporation, Agricultural Development Bank of Pakistan	Industrial Development Bank of Pakistan
India	Reserve Bank of India	71	22	State Bank of India; Industrial Finance Corporation of India; Industrial Finance and Investment Corporation of India; National Industries Development Corporation; Cooperative Bank	State Finance Corporations, National Small Industries Corporation; money-lenders ("soucars"); indigenous banks

* Economic Development Board was scheduled to become the Development Bank of Singapore effective from August, 1969.

Asian Governments' Small Industry Policies

As already noted earlier, the smaller industries in the Asian countries are broadly within the categories of traditional household industries and modern industries, but the past policies for "small industries" were mainly directed to develop the household industries in the first category. But apart from the policies of developing household industries, every country in this region has come to contemplate fostering modern small industries Behind this is, of course, the growth of modern small industries in each country.

Concerning the household industries, the governments of some Asian countries implement policies to foster some of them as the export industries, but for the majority of the rest, it can be said that there is little room for their development into modern industries. With this in view, each country is shifting emphasis on the fostering of modern small industries in the second category, but with respect to the household industries which affect the livelihood of the majority of the people, the truth is that the policies for these should not be considered lightly. How emphasis is placed on the industries in the two categories differs from country to country. In China, Korea, Thailand, Singapore, India and Pakistan, more emphasis is placed on modern industries in the second category, while the Philippines and Malaysia lay more emphasis on the household industries, and the policies for these are social rather than economic. These differences correspond to the degree of progress made in small industries in these countries.

The concrete policies implemented for the small industries in these countries may be those on technology, distribution, industrial estates or finance to which priority is given.

(1) Technological Policies

As pointed out above, the technological level of small industries in the Asian countries is low, and of the various policies implemented by the governments for small industries, policies on technological guidance and occupational training are regarded as most important. In concrete terms, they relate to technical inquiry service, technical training courses, occupational training facilities, which are provided also in Japan, as well as the operation of model factories, the trial manufacture of new products and the provision of guidance on product design and

other pilot projects which are mostly implemented by the governments.

One problem in technological guidance is the dire shortage of technological manpower, and in view of this, as in Singapore and Malaysia, technical experts from the International Labor Organization (ILO), other international organizations, Japan, the United States, the Federal Republic of Germany and other advanced countries have been invited to provide technical service. Also in Thailand, the Philippines and Singapore, the technical training centers jointly established by the governments of these countries and Japan play a great role in this field.

(2) Distribution Policies

In the Asian countries, most of the small industries, particularly household industries, rely on middlemen in procuring raw materials and selling products, and this cuts deeply into their profits, making it impossible to accumulate capital for modernization. In Malaysia, Thailand and Indonesia, it seems that the control exercised by these middlemen is particularly strong. In these countries, it is considered as an important policy for small industries to exclude their control from the field of distribution. It should be noted, however, that the economic power of these middlemen is very strong. The present situation is that many economic activities must be conducted by reliance on them. It is therefore impossible to exclude them immediately, and the governments have adopted policies to gradually exclude them. Concrete policies implemented are the collective importation of raw materials for small industries by MARA (Majlis Amanah Raayat or the Council of Trusts for Indigenous People), a government agency for the protection of native industries in Malaysia (a similar role is played by cooperative associations in Indonesia), and the establishment of public sales agencies and the public purchase of products for exportation in the Philippines.

(3) Industrial Estates

The construction of industrial estates, as a new policy for small industries, has come to be carried out in nearly all the Asian countries. In these countries it is extremely difficult for small industries to procure land and construct factories by themselves in view of their financial and managerial capabilities. Hence, steps

are taken to make a government agency or a public corporation instrumental in (a) developing factory sites, highway, electric, water supply and drainage facilities, and (b) constructing industrial estates and renting factories erected there or (c) selling them on a long-term installment basis. This is different from the Japanese way in which the private organs mainly take care of smaller enterprises, with governmental support. It is believed that the construction of estates for small industries has gathered momentum due to growing awareness of the necessity of implementing over-all policies, because it was found to be ineffective merely to finance them because of their low levels of technology and management. India, Pakistan and Singapore are, above all, positive in constructing industrial estates, and nearly all the other Asian countries are also constructing or planning to construct industrial estates.

II. FINANCIAL POLICIES FOR SMALL INDUSTRIES

Small industries in the Asian countries are by and large excluded from the modern financial markets and it is extremely difficult for them to obtain financing from commercial banks, as pointed out in the preceding paragraphs. It is, therefore, realized in every Asian country that to foster the development of small industries, the government should provide various forms of financial support to these industries.

In India, where industrialization started early, a special system of financing small industries was organized since the 1930s. Starting from the 1960s other Asian countries have established systems for financing small industries. But it has not been long since the systems were established, and they are still in an embryonic stage, being small in scale. Hence, it is premature to evaluate the results derived from these systems.

There are two ways of financing small industries, and the choice of which way to follow varies from country to country. One way is by establishing an independent government agency, and the other is by arranging for a ministerial division or section of the government to finance industries. Korea, India and Pakistan have adopted the first way, and China, the Philippines, Thailand, Malaysia and Singapore pursue the second way. When a ministerial division or section finances small industries, it is normally within a ministry of industry and/or commerce and implements financial policies together with those for providing technical inquiry service and management consultation.

In Korea, India and Pakistan which have independent government agencies established for financing small industries, the governments play a decisive role in their national effort to gain

economic development. On the other hand, in other Asian countries which have ministerial divisions and sections for finance, small industries look upon the private sectors as being mainly responsible for economic development. The latter group of countries seem to believe that in the future the financing of small industries should be entrusted to the private sectors and the governments should play a pump-priming role.

As to the question of which principles to use for financing small industries in the Asian countries, our impression is that with the exception of some small industries financed according to racial or social policies, there are unexpectedly few aspects to which are applied the principles of protectionism and relief, which may well be expected from governments' guidance policy finance in the countries, with the rest mostly financed on a commercial basis. This trend is strong, above all, in the countries where small industries financing is entrusted to private finance organs. It seems that the requirements of screening applications for loans and provision of collateral are fairly strict, and there are such countries as Singapore where a small enterprise desirous of obtaining a loan from the government is required to meet the minimum financing terms imposed by a commercial bank. In the countries which were once colonies of the United Kingdom, in particular, the tradition of "sound banking" still is strong, and it seems that even the governments have no intention to finance industries without paying due regard to the risks or profits involved. It seems that this runs counter to the principle of establishing government-affiliated finance organs, but the actual problem is that if the financing terms are made unreservedly flexible in a country where the foundation of its industries is still weak, it is evident that outstanding debts and payments in arrears will increase sharply. From this point of view, it seems that there are certain limitations even to the governments' guidance policy finance.

Shown in Table 4 are the small industries finance organs affiliated with the governments of the Asian countries. A detailed explanation of these in outline form follows on a country-by-country basis.

TABLE 4. SMALL INDUSTRY FINANCE ORGANS AFFILIATED WITH THE ASIAN GOVERNMENTS

Country	Government agencies in charge of small industry policies	Small industry finance organs	Established	Fund sources
Korea	Ministry of Commerce and and Industry	Medium Industry Bank	1961	Investments and borrowing from the governments, private deposits, foreign currency borrowings
China	Small Business Division, Executive Yuan (Council)	— do —	1968	Capital investment by the government and private banks
Philippines	National Cottage Industries Development Authority, Dept. of Commerce and Industry	NACIDA	1962	Capital by the government
		Development Bank of the Philippines	1946	Investments from the government, deposits, bonds, foreign currency borrowings
Thailand	Department of Industrial Promotion, Ministry of Industry	Loan Office for Small Industries Development, DIP	1964	Capital by the government and private banks
Malaysia	MARA	MARA	1963	Capital by the government
		Malaysian Industrial Development Finance Ltd.	1960	Government and private capital, borrowings from the World Bank and the government
		Malaysian Industrial Estate 1964 Ltd.	1964	Investments and borrowing from MIDFL
			1963	Capital by the government
Singapore	Light Industry Services, Economic Development Board	— do —		
India	Central Small Industries Organization, Small Industries Development Department, Ministry of Industry and Supply	State Finance Corporations	1951	Capital and investments by the central and state governments, bonds
		National Small Industries Corporation	1955	Investment by the central governments
		State-Aid-to-Industries Act		Funds from the central and state governments

Financial support is predominantly granted through the provision of loans. Credit guarantee systems as utilized in Japan have been adopted only in Korea and India, and financial support in the form of participation in capital is carried out only in some states of India.

Concerning methods of financing small industries, it has been noted that nothing is particularly different from the Japanese methods in the countries where financing is carried out by independent government agencies. But in the countries where financing is done through ministerial divisions or sections, the governments are responsible for accepting and screening applications for loans. However, the appraisal of collateral as well as the provision and collection of loans are, in most countries (such as China, Thailand and Singapore), entrusted to commercial banks. This is probably because it is impossible for the governments alone to conduct the complex finance activities and because this is also aimed at inducting capital from commercial banks. In this case the banks are mostly responsible for 100 per cent of guaranteed credit on loans given to small enterprises, and the governments are seldom responsible for credit guarantees. To cover the costs and risks involved in the loans, the banks are entitled to a commission on the interest paid on each loan.

Capital sources. Central or local governments are the natural sources of capital. But when capital is available from independent government agencies, there are countries (like Korea and Pakistan) where private investments or deposits are accepted, or where borrowings are made in foreign (American, German and Japanese) currencies (as in Korea). There is, besides, a country (Korea) where borrowings are made from the central bank but the weight of such borrowing is very small. In such countries as China and Thailand where the activities of small industry financing are entrusted to commercial banks, capital is inducted from them in the form of public-and-private cooperation. In this connection the volume of capital is a problem, but as a result of the present investigation, it was found that few finance organs suffered from a capital shortage, probably not because there is surplus capital

but because loans are provided on rigid standards. In other words, it seems that there still are few industries capable of meeting the standards. This holds true not only for the finance organs servicing small industries but also those for large industries. In Malaysia and India, for example, there are some government-affiliated independent finance organs which do not appropriate their surplus capital for financing industries but hold them in cash, deposits and government-issued securities.

The terms of small industry financing. The main objective of small industry financing is to enable enterprises to procure capital for plants and equipment. Although in some countries loans are provided also for operating capital, but most of them are on a long-term basis. In Korea and India alone, short-term loans for operating capital are provided with single-name notes or bills or in the form of overdrafts, but the discounting of notes and bills is not carried out. This is because the custom of settling accounts with notes and bills is not well established (even the commercial banks in general mostly provide short-term loans in overdrafts with merchandise, real estate, etc. as collateral). Concerning loans on capital for plants and equipment, they are provided in most countries by the hire-purchase system. The objective is twofold. One is to confirm the use of a loan thus provided. The other objective is to enable small industries to procure imported equipment which are difficult for them to obtain in connection with foreign exchange reserves.

Limits to loans and terms of repayment vary from country to country, as shown in Table 5. Regarding the rates of interest on loans, those for Korea and China are high (their respective annual rates range from 16 to 23 per cent and from 10 to 12 per cent) and the normal rates for the other countries are 7 to 9 per cent, which are nearly on the same level as Japan. In special cases, they are as low as 4 to 6 per cent. The general trend is discernible that the rates for such high-growth countries as China, Korea, Thailand and Singapore are relatively high (in the case of

TABLE 5. FINANCING TERMS OF THE GOVERNMENT-AFFILIATED SMALL INDUSTRY FINANCE ORGANS IN THE ASIAN COUNTRIES

Country	Finance Organs	Limit of loans	Period of repayment	Annual rate of interest
Korea	— Medium Industry Bank	Circa US$36,111 (circa US$18,055 for plant and equipment capital or operating capital)	5 years or less	Operating capital: 23-24%; Plant and equipment capital: 12-15% Loan on exports: 6%
China	— Small Business Division, Executive Yuan (council)	US$100,000 US$50,000 per member industry of an industrial estate	2 years or less for operating capital 8 years or less for plant and equipment capital	12.1%
Philippines	— NACIDA	US$250	1 year or less	4 %
	— Development Bank of the Philippines	US$2,500	10 years or less	6 %
	— Philippine National Bank	circa US$6,111	5 years or less	7-9%
Thailand	— Loan Office for Small Industries Development, Ministry of Industry	US$25,000	3 to 10 years	9%
Malaysia	— MARA	No limit	5 years or less	6-7%
	— Malaysian Industrial Development Finance Ltd.	circa US$33,333	5 to 10 years	8-10%
Singapore	— Light Industries Services, Economic Development Board	circa US$66,666	2 years or less for operating capital, 5 years or less for plant and equipment capital	8.5% (including 1.5% for a banking commission)
India	— According to the State-Aid-to-Industries Act	circa US$13,333	3 to 7 years	2-5%
	— State Finance Corporations	circa US$18,056	10 to 12 years	6-7 %*
	— National Small Industries Corporation	circa US$7,778 ***	7 years or less	4.5-6 %**
Pakistan	— Industrial Development Bank of Pakistan	circa US$52,778	5 to 10 years	7-8%

Notes: * When a loan is duly repaid, interest accruing from it is rebated at the annual rate of 0.5 per cent.
** In this case, a hire-purchase system is adopted, and 5 per cent of the price of plant and equipment to be purchased is added as the commission to the interest paid at the above-mentioned rate.
*** These figures are the average values of loans provided.

Korea the high rate is partly affected by the inflationary spiral). The reason seems to be that the faster an economy grows, the stronger the demand for capital. When the rates of interest on loans from commercial banks in general are compared with those of interest on loans from the government-affiliated finance organs to small industries, there is not much difference although the former rates are slightly higher than those of the latter, but there is a big difference between them and the rates of interest on loans from money-lenders. With this in view, it seems that no measures greatly favorable to small industries on interest rates are taken and that the minimum rates of interest on loans from commercial banks are maintained as the standard rates for small industries. The principle that even the small industries should be fostered on a commercial basis is always followed, and the low interest rates of 4 to 6 per cent are maintained from the protectionist point of view, as seen in the financing of household industries for relief in the Philippines and India. The actual problem is that if the interest rates are made too low, those enterprises which do not qualify to be financed will obtain financing with the result that the percentage of uncollected loans will rise. The annual rate of interest on loans according to the State-Aid-to-Industries Act of India is as low as 2 to 5 per cent, and the percentage of loans collected by this system is only 35 to 50. Reflection has been made on whether the interest rate is too low or not.

Concerning the collateral and guarantor for a loan, they are required in almost all the countries, and unsecured loans are seldom given. In many instances, immovables, particularly land, is offered as collateral. The rates of assessing immovables as collateral are about 70 per cent. The rates for the State Finance Corporations of India are less than 50 per cent. Some of the rates in Malaysia are as severe as 50 per cent on land and 40 per cent on a building.

Even when loans are given by commercial banks in the Asian countries, great importance is given to collateral. The same thing can be said of loans provided by the governments. In examining the financial status of an enterprise, it seems that priority is given to considerations regarding collateral rather than business prospects. Particularly when the scale of the enterprise is small, to give priority to collateral is inevitable because an official in charge of approving the loan is often diffident about the applicant's credit standing and the marketability of his products.

In examining the status of an application for a loan, priority is also given to its technological aspect. In this region of the world, by and large, the technological basis of industries is not well established, and it is important to check whether the purpose of a requested loan is technologically feasible. For this purpose, in almost all the finance organs in the Asian countries, technological staff members are employed or other organs are entrusted with the task of examining the technological aspect of industries.

It is hard to ascertain how many applications are accepted because of the lack of reliable statistics. However, the Light Industries Services of Singapore leads the finance organs in other countries for having accepted more than 80 per cent of the applications filed with it in 1966. The Loan Office for Small Industries Development of Thailand accepted less than 60 per cent of the applications filed with it in 1967. In India 65 per cent of the applications filed in 1961 according to the State-Aid-to-Industries Act were accepted, and the Indian State Finance Corporations accepted more than 40 per cent of the applications filed in 1961. In consideration, however, of the fact that these figures stand only for the formally accepted applications and also considering that a fairly large number of applications were informally rejected, it is believed that the percentages of accepted applications would be quite a bit less than the figures given. The major reason given for rejecting applications is the insufficiency of the value of collateral offered or the poor credit standing of applicants. Other reasons given are the failure of applicants to belong to industrial categories which, according to the government, are to receive priority, and also the submission of faulty data. As one could infer from the last reason, the formalities of applying for loans, which are too complex for small industries to go through, make it difficult for them to obtain loans from the governments.

The finance organs which were visited invariably stated that it would take one to two months from application for a loan until its disbursement, but in the countries where small industries financing is entrusted to commercial banks, the truth may be that it takes a little longer. In the case of India, it takes a particularly long time. To obtain a loan according to the State-Aid-to-Industries Act, six to eight months are needed. To obtain a loan from a State Finance Corporation of India takes four to seven months. This inefficiency is a target of criticism.

Money rates in the countries surveyed are given in Table 6.

TABLE 6. MONEY RATES IN THE ASIAN COUNTRIES

Country	Official money rates	City banks' money rates	Money rates of the small industry finance organs affiliated with the governments
Korea	21% (March 1968)	24% for bills discounting; 26% for (general) loans on bills; 6.5% for export bills discounting	12-15% for plant and equipment capital; 23-24% for operating capital; 6% for export loans (Medium Industry Bank)
China	10.8% for bills rediscounting; 13.3% for loans on securities	12.2% for bills discounting; 13.3% for loans on securities; 14% for unsecured loans	12.1% (Small Business Division, CIECD, Executive Yuan)
Philippines	7.5% (Feb. 1968)	8-14% for loans on securities; 11.5-14% for unsecured loans; 10-12% for overdrafts	4% (NACIDA); 6-8% (Development Bank of the Philippines); 7-9% (Philippine National Bank)
Thailand	5% for bills rediscounting; 7% for loans secured with government bonds	10-14%	9% (Loan Office for Small Industries Development, Ministry of Industry)
Malaysia	none	7.5% for short-term loans; 7.5-8% for long-term loans	6-7% (MARA), 8-10% (Malaysia Industrial Development Finance Ltd.)
Singapore	none	7% for short-term loans; 8-9% for long-term loans	8.5% (Light Industries Services, Economic Development Board)
India	5% (March 1968)	8-8.5% for short-term loans; 7-9% for long-term loans	2.5-5% (according to the State-Aid-to-Industries Act); 6-7% (state finance Corporations); 4.5-6% (National Small Industries Corporation)
Pakistan	5%	6-8%	7-8% (Industrial Development Bank of Pakistan)

TABLE 7. LOANS PROVIDED BY THE SMALL INDUSTRY FINANCE ORGANS AFFILIATED WITH THE ASIAN GOVERNMENTS

Country	Organs	Balance of loans or the value of loans provided	Average per-loan value
Korea	Medium Industry Bank (established in 1961)	Circa US$77,933,333 (balance as of the end of June 1968)	US$5,025 (Jan. – June 1968)
China	Small Business Division, Executive Yuan (council)	Circa US$1,066,667 (balance as of the end of June 1968)	Circa US$13,486 (Jan. – June 1968)
Philippines	NACIDA (established in 1962)	Circa US$22,222 (balance as of the end of September 1968)	Circa US$27 (Jan. – Sept 1968)
Thailand	Loan Office for Small Industries Development, Ministry of Industry	Circa US$3,661,667 (balance as of the end of Sept. 1968)	Circa US$12,314 (Oct 1967 – Sept. 1968)
Singapore	Light Industries Service, Economic Development Board (established in 1963)	Circa US$3,675,000	Circa US$8,447 (Jan. – July 1968)
Malaysia	MARA (established in 1963)	Circa US$3,394,444 (total value of loans provided until August 1968)	Circa US$2,164 (Jan. – Dec. 1967)
India	State-Aid-to-Industries Act	US$31,000,000 (total value of loans provided in all the states until March 1962)	Circa US$556-$1,111
	State Finance Corporations	US$10,500,000 (balance of loans provided in all the states as of the end of March 1962)	Circa US$18,889
	National Small Industries Corporation	US$19,500,000 (total value of loans provided until September 1962)	US$8,000

Loans provided by the small industries finance organs affiliated with the governments are shown in Table 7.

In terms of the balance of loans provided for small industries, it seems that the Medium Industry Bank of Korea comes first with about US$78,000,000, followed by Thailand and Singapore with about US$3,700,000, respectively. The figures for other Asian countries are all less than US$1,400,000. In terms of the average per-loan value, such high-growth countries as China, Thailand and Singapore lead, with values ranging from US$13,500 to US$8,500. The figure for Korea is about US$5,000, and the figure for India is also fairly high. In contrast, the figures for the Philippines and Malaysia are very low because the industries financed by the governments are household industries.

Viewed from the total financial picture in each Asian country, the weight carried by public finance organs in financing small industries is not easily determined. However, it is believed that it carries the greatest weight in Korea. The Medium Industry Bank of Korea is responsible for nearly 30 per cent of the loans given by all the finance organs for small industries. The common conjecture is that the value of small industry financing in other Asian countries is almost negligible. Even in India whose small industry financing system is more perfect than any other Asian country, it is estimated according to a 1961 survey that the total amount of loans (including operating capital) extended to small industries by the government-affiliated finance organs account for only 6 per cent of the total amount of capital invested in all small industries.

It is not known due to the want of data, what percentage of loans are uncollected in each Asian country, but the percentage is not likely to be high because of the strict standards maintained in granting loans. According to the Loan Office for Small Industries Development, Thailand, the ratio of uncollected loans to the balance of loans provided for small industries is approximately 5 per cent. But in some cases from India, as mentioned above, the ratio of collected loans to the balance of provided loans is as high as 35 to 50 per cent.

Problems posed to the finance organs in the Asian countries. One major problem common to them is the shortage of talented manpower. In a developing country the shortage of technological manpower is notable in every field. In the financial field where high-level knowledge and experience are required, it is difficult to secure qualified manpower. Generally, the small industry finance organs in the Asian countries are staffed with four to five persons

or at most 20. At most of the organs which we visited it was stated that they were understaffed, and it seems that the present bottleneck in expanding small industry financing is a manpower shortage rather than a capital shortage.

Another major problem is the administration of loans after they are given. In developing regions loans are often used not as they should be. Loans procured from government-affiliated financial organs at low rates of interest are often loaned to third parties or loans procured on plants and equipment are often appropriated for personnel management. Many industries to which loans are given fail in management due to the lack of managerial and technological abilities. For this reason, the administration of provided loans to insure their intended uses and the provision of managerial and technological guidance before their collection are as important as the provision of loans themselves. With this in view many finance organs put great emphasis on their follow-up actions on loans, and staff members of the departments specifically created for this purpose make regular visits to enterprises to which loans are given in connection with loan administration and also for the provision of guidance.

III. SMALL INDUSTRY FINANCE ORGANS AFFILIATED WITH THE ASIAN GOVERNMENT: A COUNTRY-BY-COUNTRY SURVEY

Korea

The dogs of war were unleashed twice into Korea which made the country suffer a double blow with the separation of North and South Korea following the end of World War II, and the destruction wrought by the Korean War. When efforts for recovery were started, the country was in a very difficult situation. With American military and economic support, she began to stand on her own feet. Since the start of the 1960s she has been making rapid progress due mainly to special Vietnam procurements. However, there still remain elements of backwardness in the Korean industrial structure with great importance placed on the primary industries and a lesser value on the secondary industries. Although the heavy and chemical industries are fairly well developed, foods, textiles and other consumer goods account for a great percentage in the manufactures.

The scale of enterprises in general is small with an average of 20 employees, 99 per cent of the enterprises fit into the category legally defined as "medium and small" with less than 200 employees. There are a few modern large industries producing iron, steel, fertilizer, oil products and synthetic textiles, which are run by the government or in cooperation with foreign companies. Major industrial lines in which the medium and small enterprises are engaged are foods, beverages, apparel, personal accessories, furniture, oil and coal products, ceramics and metal ware. There are, besides, many household industries producing such local products as pottery, lacquer ware, paper and bamboo products, cultured pearls and embroidery.

To promote exports for the purposes of acquiring foreign currency, providing jobs for the unemployed, and fostering industries capable of supplementing the large industries, the government strives to develop medium and small industries. In particular, several industrial lines are designated for export

promotion, for which financial support, the preferential allocation of foreign exchange and other measures are implemented.

The Small Business Department within the Ministry of Commerce and Industry takes charge of the government's small business policies, and it is the Medium Industry Bank which plays the most important role in implementing them. Established in 1961, aside from providing loans, the bank conducts activities covering a wide range, such as guaranteeing credit, providing managerial and technological guidance, conducting surveys on medium and small industries and compiling statistical data. In financing medium and small industries, the bank carries a great weight with the balance of loans standing at about US$78,000,000 as of the end of June, 1968, or nearly 30 per cent of all the loans provided for medium and small industries. Its capital consists of the government's investments and loans, private investments and foreign currency borrowings from the Agency for International Development (AID) of the United States, the Kredit Anstalt für Wiederaufbau (Bank for Reconstruction) of the Federal Republic of Germany and the Overseas Economic Cooperation Fund of Japan. At present nearly 80 per cent is accounted for by its deposits and its borrowings from the government. (The percentage as of the end of June, 1968 was 60 per cent for the deposits and 20 per cent for the borrowings.) The foreign currency borrowings are earmarked for imported plants and equipment. The bank finances small industries in the designated lines in the order of: (1) those which should be fostered as medium and small industries, (2) those which should be developed into large industries, and (3) those which should be made to switch to other lines, and particular emphasis is laid on export-affiliated industries, those producing import substitutes and those producing special indigenous produce (27 per cent of the balance of all loans provided by the bank for medium and small industries as of the end of 1967 was for export industries). Cooperatives also receive preferential treatment from the bank in relation to money rates and other matters, and nearly 13 per cent of the balance of all loans provided by the bank for medium and small industries as of the end of 1967 went to them.

An enterprise qualifying to obtain a loan from the Medium Industry Bank should have five to 200 employees and assets totalling less than 30,000,000 won (circa US$106,383). The ceiling to a loan on both plant and equipment capital and operating capital is 5,000,000 won (circa US$17,730), and it should be

repaid within five years. The rate of interest on loans provided by the bank for medium and small industries is far higher than a similar Japanese rate because the general level of money rates in Korea is extraordinarily high. (The annual official money rate of the Bank of Korea, the central bank, is 21 per cent, the rates of interest on loans from commercial banks range from 24 to 26 per cent, and the rate of interest on a six to 12 months' time deposit is 20 per cent.) Different interest rates are used by the bank for loans given out of its own funds and those out of the government funds. In each case preferential treatment is given to enterprises obtaining loans for their plants and equipment. When a loan is provided out of the bank's own funds, the interest rate on loans for operating capital is 23 to 24 per cent, and that for equipment capital is 15 per cent, while in the case of loans provided out of the government funds, the interest rate is 16 per cent for operating capital and 12 per cent for equipment capital. Preferential treatment is accorded to export industries, in particular, with the interest rate for loans on their plant and equipment capital as low as 11 per cent.

The balance of loans provided by the bank for medium and small industries as of the end of 1968 stood at about US$77,777,778, most (94%) of which went to manufacturing industries. The percentage includes about 25 per cent, the greatest weight, for textile industries, 11 per cent for machinery industries, 9 per cent for chemical industries and 7 per cent for food industries. To split the balance by the objectives for which loans were provided, 80 per cent is accounted for by loans for operating capital and the rest or 20 per cent by those for plant and equipment capital (the percentages for the loans provided by all the financial organs for medium and small industries to procure operating capital and plant and equipment capital are 89 and 11 per cent). Most (98%) of the bank's own funds is appropriated to finance medium and small industries' operating capital and the funds provided by the government are almost equally earmarked for loans for operating capital (52%) and those for plant and equipment capital (48%).

The bank's credit guarantee activity. A credit guarantee fund (consisting of the government's investments, the bank's reserves and collected guarantee fees) is established within the bank according to the Medium Industry Bank Law to guarantee credits up to an amount ten times the value of the fund. (The guarantee fee is uniformly fixed at 2 per cent.) The balance of credit

guaranteed as of June 1968 reached about US$11,708,955, most (85.5%) of which is accounted for by credits guaranteed for cooperatives so that they may procure operating capital. In March, 1967 the Small Industry Credit Guarantee Act was enacted, and it is ruled that a special organ to be established within five years after that will take care of all credit guarantee activities concerning medium and small industries. In the intervening time the bank was temporarily commissioned to conduct all activities.

China

After its reversion to China, the Province of Taiwan, to get out of its colonial status, established the goal, first of all, of becoming self-sufficient in consumer products, which were mostly imported from abroad, and strove for industrialization mainly by fostering light industries producing substitutes for imported products. Favored with American aid, the industrial legacy left by Japan and other conditions, her industrialization made rapid progress, and some of her industries which started producing import substitutes have developed into export industries.

With the development of light industries, many small industries were tooled up from the turn of the 1950s. They are well on the way toward greater growth. In this respect, Taiwan is somewhat different from the other Asian countries. Most of the industries are family industries producing edible oil, tea, other foods, textiles, knit goods, towels, other fabric products, wooden, bamboo and rattan products, soap and ceramics. More recently subcontracting industries have developed in such manufacturing lines as electrical appliances and automobiles.

To foster these small industries, in 1966, rather late in our impression, the Chinese Government created the Small Business Working Group within the Council for International Economic Cooperation Development, Executive Yuan (Executive Council), and started to implement a policy of fostering small industries on an experimental basis. The main objective was to maintain awareness of facts about them and their requirements. Later, in 1968, the group was reorganized into a permanent agency named the Small Business Division. Functions of this division are the formulation, administration and implementation of policies fostering small industries. It is basically a policy-making organ. As a

consequence, in implementing policies, it enlists the cooperation of other organs (such as the China Productivity and Trade Center and the Taiwan Handicraft Promotion Center), and in providing loans, it entrusts private financial organs with the procedural tasks.

The speed of economic growth in Taiwan is so rapid that the general demand for capital is strong, but it is not easy for small enterprises to obtain loans from financial organs, which becomes a big problem for them. Methods used by the Small Business Division in financing are: (1) the provision of half of a loan by the division (the procedural task is entrusted to a private financial organ) and of the other half by the organ, (2) the provision of a whole loan by the division through a bank, and (3) the provision of a loan by a bank out of a fund deposited by the division with the bank. To give a loan to an enterprise, (1) the division accepts an application for it, (2) a diagnostic team formed by staff members of the division, other cooperative organs and a bank through which it is provided, examines the planning, technological, financial and other managerial aspects of the enterprise, and (3) the bank assesses collateral offered and investigates the guarantor's credit standing. This procedure is simpler when the value of the loan is small.

In (1) above, the risks on the loan are covered fifty-fifty by the Small Business Division and the bank, and commission is paid to the bank at the annual rate of 2.5 per cent of the interest accruing from the loan. An enterprise desirous of receiving a loan from the division is required to have assets totalling less than 5,000,000 yuan (US$125,000) and less than 100 employees with its projects meeting requirements of the government's small business policies. The loan may cater to receiver's needs for procuring plant and equipment capital or operating capital. It may also help promote the cooperation of small enterprises through the construction of an industrial estate or the installation of equipment and facilities for common use. Limits to loans are 4,000,000 yuan (US$100,000) for an individual project, 200,000 yuan (US$5,000) for small-sum loans and 2,000,000 yuan (US$50,000) for each member of an industrial estate. A loan on operating capital is to be repaid within two years, a loan on plant and equipment capital within eight years and a small-sum loan within five years at the annual interest rate of 10.0 per cent, provided that the rate in the case of joint financing is 14 per cent for the part of a loan provided by a bank. Hence the average rate

is 12.1 per cent. Any property which is recognized by a bank as appropriate may be used as a collateral for a loan and the assessment rate of collateral is about 70 per cent. A plant, equipment and facilities acquired by the use of a loan can be mortgaged. Loans provided by the Small Business Division through eight commercial banks by the end of June, 1968 totaled about US$1,066,000 with the average per-loan value amounting to about US$13,500. There are, besides, US$3,750,000 worth of loans given by banks to smaller industries out of the funds deposited by the government with them.

Philippines

The pre-independence Philippine economy was of the colonial type and was made viable by exporting its primary products to and importing manufactures from the United States, but since its recovery of independence and sovereignty, the republic has been bent on industrialization with its manufactures showing a relatively high growth among the Asian countries. Its efforts for industrialization have been directed to develop basic industries and foster those producing consumer products which substitute for imported products. Now nearly 70 per cent of all the Philippine manufactures are accounted for by such consumer products as foods and textiles, which constitute the kernel of Philippine industry. Because of this, the Philippine industries are mostly on a small scale. According to the survey conducted in 1966 by the Statistics Bureau of the Philippine government, 72 per cent of the manufacturing enterprises had less than five employees and only one per cent of them had more than 100. Most of them are family enterprises producing foods, apparel and footwear. In the rural districts there are many cottage enterprises engaged in wood carving, metal processing, embroidery and the production of ceramic, bamboo, rattan and shell products. (According to the National Cottage Industries Development Authority, abbreviated as NACIDA, there are an estimated 24,000 cottage enterprises in the rural districts.) The Philippine government's small industry policies are implemented through NACIDA which was established in 1962. NACIDA, an independent agency established by a special act and placed under the Ministry of Commerce and Industry, is aimed, as can be eponymically inferred, at protecting and fostering cottage industries instead of developing modern small industries. This is partly because there are not many modern small industries developed in the Philippines,

but the primary reason is that the government has, in the first place, taken up the development of cottage industries, which are widely scattered all over the country, as a policy of employment or out of the necessity of utilizing domestic resources.

NACIDA has branch offices at various places in the Philippines. It gives technical training, management consultations, small-sum loans, marketing service (including export marketing) on the products produced by cottage industries and inspects their products for exportation. Besides these activities, it provides model factories and exhibition facilities for metal, wooden and embroidered products in support of cottage industries. It has also been arranged that a cottage enterprise associated with NACIDA may be exempt from production and sales taxes for five years. (In 1964, the agency accepted applications for registration from more than 18,000 cottage enterprises.) The original fund granted by the government to NACIDA was worth 4,000,000 pesos (circa US$1,027,778), and estimates for the agency's later annual programs, including its loaning projects, have since been approved in the state budget.

An industry which is registered with NACIDA qualifies to receive a loan from the agency, and for this purpose, it is required to have assets worth up to 200,000 pesos (circa US$50,000). Loans are given to the maximum extent of 1,000 pesos (circa US$250) to be repaid within one year at a very low annual interest rate of 4 per cent. Land buildings, plants and equipment are acceptable as collateral, and guarantors are needed.

In the important industrial lines for cottage industries are textile weaving, wood carving, apparel sewing and the production of ceramic and shell products as well as preserved foods. The industries in these lines are given preferential treatment in receiving loans from NACIDA. By 1968, 6,125 loans to the tune of 1,400,000 pesos (circa US$361,111) were provided by the agency. NACIDA was established with a very limited fund because it was anticipated that it would draw on the Development Bank of the Philippines and the Philippine National Bank concerning loans to be provided for cottage industries, but neither of the two banks complied with requests for making subscriptions, and NACIDA suffered an acute fund shortage. To alleviate the shortage, the NACIDA Bank was brought into existence in 1963 but closed down after operation from 1965 to 1966 because public and private investments were not made in the bank as scheduled.

(10,000,000 pesos out of the scheduled 20,000,000-peso public investments and 30,000 pesos out of the scheduled 10,000,000-peso private investments were made.) Its business was then taken over and is carried on (as will be touched upon later,) by the Philippine National Bank.

Besides NACIDA, the Development Bank of the Philippines and the Philippine National Bank finance cottage industries, but their activities in this field are negligible. The Development Bank finances cottage industries on favorable terms according to a special cottage industry finance program, but only 11 per cent of 5,000,000 pesos which was appropriated at first for the program has been spent for the following four years, and it cannot be said that the program is an unqualified success. The reasons are that it has not been much publicized and that the security terms are too strict.

To take over the business of the above-mentioned NACIDA Bank, which was closed down, the Philippine National Bank opened the PNB-NACIDA Assistance Office in 1967 within its finance division and finances the NACIDA-registered industries with a fund worth 5,000,000 pesos (circa US$1,277,778) created from its own funds. Loans are given to a maximum of 25,000 pesos (circa US$6,278) repayable within five years at an annual interest rate of 7 to 9 per cent, but it has not been long before the new business started and the amount of loans given is still small.

Thailand

Until recently Thai economy was primarily dependent on agriculture, but at the start of the 1960s the government's active policy for industrialization triggered industrial development, and the economy has since undergone dramatic changes. The first six-year plan for economic development was started in 1961 and the second plan was started in 1967. Through these plans the government is determined to develop power, highway, harbor and other infrastructural facilities while fostering private industries and inviting foreign industries on the strength of the Promotion of Industrial Investment Act which went into force in 1962. In the meantime, with huge amounts of American aid and special Vietnam procurements, the economy has attained a higher growth rate than what was the goal. At present, it can be said that the

economy has reached that stage at which the foundation of modern industries is established.

Even so Thai enterprises are still concentrated in the processing of primary products derived from agriculture, forestry and fisheries and the production of textiles and other consumer products. The enterprises which were registered with the Ministry of Industry as of 1966 reached 41,196, of which 95 per cent were in the category of light industries and 90 per cent engaged in the processing of primary products. The average number of their employees was less than 20. (If the unregistered industries are included, the average number of employees will be less than three.) The number of public and private so-called "large enterprises" (including joint ventures) are 250 or less. It is estimated that the unregistered enterprises with one to two employees would total 140,000 to 150,000.

Among the small enterprises are those mainly run by middle-class Chinese, which produce such daily necessities as apparel, foods, beverages, furniture, footwear, soap and matches. Recently some of them have come to be engaged in automobile maintenance and machinery repair businesses. There are, besides, many rural industries and urban handicrafts producing traditional products such as ceramics, lacquer ware, wooden products, Thai silk, hand-woven cloth, and gold and silver products.

The Thai government's small industry policies are taken care of by the Department of Industrial Promotion, Ministry of Industry. There is, besides, the Small Industries Service Institute established with financial aid from the United Nations and in cooperation with the International Labor Organization (ILO). This institute provides technical expert service, managerial consultation and technician training and also conducts market research for small industries. The government, believing that the small industries will become the basis of future growth of the Thai economy, places emphasis on fostering them. Above all, financial support together with technical expert service and the construction of industrial estates is highlighted in the second five-year plan.

The Industrial Finance Corporation of Thailand, established in 1959, finances some large industries and does not handle small-sum loans of less than 500,000 bahts (circa US$25,000). In 1964, the government created the Loan Office for Small Industries Development within the Department of Industrial Promotion, Ministry of Industry, and started to finance small industries with

the cooperation of a government-affiliated commercial bank. This is under the Cabinet-appointed Loan Board (formed by members each representing the Ministry of Finance, the National Economic Development Board, the Budget Bureau and the commercial bank) which makes final decisions on applications for loans from small industries after they are examined and commented upon by the Loan Office.

Loans through the Loan Office are given out of a fund jointly created by the government and the Krung Thai Bank, a government-affiliated bank. The Loan Office checks an industry applying for a loan on its financial requirements as well as its managerial and technological aspects, and collateral offered is assessed by the Krung Thai Bank. A special small industries finance account was opened in the bank to receive a deposit every year from the government, and an amount equal to that of the government deposit is reserved by the bank, but from October, 1968 this ratio of 1:1 was altered to one for the government and three for the bank. In Fiscal Year 1968 it is expected that 6,000,000 bahts (circa US$288,889) from the government and 18,000,000 bahts (circa US$866,667) from the bank, totalling 24,000,000 bahts (circa US$1,155,560), will be spent on small industry financing.

The Loan Office is entitled to receive interest accruing from the government money deposited in the bank's special account at the annual rate of 3 per cent, and the bank uses the deposit to give loans to industries at the interest rate of 9 per cent. (The same rate is applied to loans to be given out of the money reserved by the bank.) The bank takes all responsibility for guaranteeing credit on loans given to enterprises.

The Loan Office staffed by 19 members has four sections including the loan processing section and the follow-up section in charge of the administration of loans and giving managerial and technological advice. An enterprise desirous of receiving a loan through the Loan Office is required to have total fixed assets worth up to 2,000,000 bahts (US$100,000). Because the fund source for loans is limited, it is also required to be a manufacturing or related industry. Loans are given to: (1) buy a plant and equipment, (2) start a new business or acquire land for expansion of the existing plant and equipment, (3) construct a factory and (4) increase operating capital for the betterment of capital structure or for the development of new products.

The ceiling for loans is 500,000 bahts (US$25,000), which are repaid over a period of from three to ten years (with a one-to-two years' deferment period admitted) at the annual interest rate of 9 per cent. Movable or immovable assets, particularly land, are often used as collateral. Loans are repaid in quarterly installments.

The balance of loans provided as of the end of September, 1968 was 76,000,000 bahts (circa US$3,808,333). Loans given in Fiscal Year 1967 (ended September 1968) totaled 22,000,000 bahts (circa US$1,111,111), of which 23 per cent was alloted to loans for operating capital and the rest to loans for plant and equipment capital. Main industrial lines for which loans were provided were metal products, textiles and foods. The average per-loan value was about US$12,314. Applications for loans are strictly checked. In Fiscal Year 1967, for example, only 86 out of a total of 153 applications were accepted and more than 40 per cent rejected. Reasons for rejection were the inability to meet collateral requirements, poor prospects of growth and the inability of meeting loaning requirements. The ratio of uncollected loans to the total loans provided is as low as 5 per cent probably because of the strict checking of applications.

Malaysia

Malaysia is a multi-racial nation (consisting now of 50 per cent Malaysians, 38 per cent Chinese and 12 per cent Indians and others) with political power in the hands of the native Malaysians, but in the economic field the Chinese-Malaysians are overwhelmingly influential. In view of this, improvement of the native Malaysians' economic status is one of the government's top-priority economic policies, and the new five-year plan now under way puts emphasis on the protection and fostering of native industries.

In the long colonial years, the Malaysian economy had relied on rubber and tin, but after the recovery of independence and sovereignty the country started to strive for industrialization with the result that some modern industries (mainly with foreign capital) have come to develop. In the manufacturing sector, great weight is still held by traditional, rural industries. The native industries mainly engaged in the hand-weaving and wax-resist (batik) dyeing of textiles are run by Malaysians in the rural districts mostly under the control of Chinese middlemen. For

improvement of the economic status of the native Malaysians, it is necessary to develop the rural industries, and it can be said that their development is one of the national policies of Malaysia.

In 1950 the Rural and Industrial Development Authority was established for the development of the native industries and provided technical expert service, managerial consultations and loans, which was reorganized into MARA in 1966. About 60 per cent of the public industrial expenditures in the first five-year plan (1966 to 1970) went to MARA, which evidences that the agency plays a big role in developing the native industries.

Technological guidance is a highlight of MARA's program, but the emphasis is on the exclusion of middlemen controlling the distribution and financial fields of Malaysia. For this purpose, MARA has its direct agencies to sell the products of native industries, collectively import materials (cotton cloth and yarn, etc.) for distribution to different agencies and replaces middlemen in financing them.

MARA, a legal person founded according to a special law, has a special fund established for implementing its program. Its supreme decision-making organ is formed of representatives of the Ministry of Finance, the Ministry of Commerce and Industry, the Ministry of National and Rural Development, the Ministry of Agriculture and Cooperatives and men of learning and experience in the financial field. The fund consists of investments and loans from the government and MARA's profits earned through its own undertakings. As the source for loans the government invested M$6,000,000 (circa US$1,960,144) in MARA, which is utilized to cater to the commercial and industrial needs of procuring capital on land, buildings, plants and equipment as well as operating capital. Loans are repaid ordinarily within five years and by period installments. There are no fixed limits to loans. But when the value of a loan exceeds M$50,000 (circa US$16,335), it is arranged to avoid the provision of a loan by another government-affiliated financial organ. Except for special cases, no loans with a value of less than M$1,000 (circa US$327) are given. The annual rate of interest on loans is as low as 6 to 7 per cent and partakes strongly of protectionism. Land, buildings, other fixed assets and personal property are usually used as security. The value of each loan is up to 80 per cent of the value of the assets or property presented as collateral. Applications for loans are not strictly checked on a commercial basis.

From March, 1966 (when MARA was brought into operation) to August, 1968, 2,520 loans were provided in the amount of M$10,300,000 (circa US$3,364,913). The average per-loan value for 1967 was as small as M$6,600 (circa US$2,156). MARA has 18 staff members in the finance department of the headquarters and about 50 more in the branch offices' finance departments, totalling about 70, who handle approximately 700 loans a year.

In Malaysia, there is, besides, another semi-governmental financial organ called the Malaysian Industrial Development Finance Ltd., which mainly finances large industries with the majority of its capital borrowed from the government and the World Bank and the rest invested by private sources. It also finances small industries on a long-term basis with their factories as collateral or by the hire-purchase system for their plants and equipments as collateral. Limits are M$100,000 (circa US$32,669) for loans with factories secured and M$50,000 (circa US$16,335) for loans given by the hire-purchase system. The former loans are repaid in five to ten years and the latter in three years at the annual interest rate of 8 to 10 per cent, which is slightly higher than that of MARA. This financial organ is admitted to finance small industries up to 20 per cent of the total value of loans which it was authorized to provide, but actually only M$1,300,000 (circa US$424,698) was for small industries in the balance of loans worth M$41,000,000 (circa US$13,394,316) which were provided by the organ as of the end of March, 1968. This is probably because there still are very few industries which can meet the organ's financial requirements. The Malaysian Industrial Development Finance Ltd. created the Malaysian Industries Estates Ltd., a subsidiary, in 1964. The subsidiary (capitalized at M$2,000,000 or circa US$653,381) has thus far constructed 53 industrial estates in four places with 18 estates more expected to be completed by the middle of 1968.

There is, besides, the Bank Bumiputra (Native People's Bank) mainly financing farmers. It also finances rural industries.

Singapore

Singapore which had long been a prosperous transit port naturally has an industrial structure different from those of other Asian countries. Commercial and other tertiary industries hold primacy in the structure with a very low weight held by agriculture

and manufacturing industries. It has been indicated however that at present its transit trade is on the wane. Further it has been decided that the British troops there, whose spending is one major revenue source of Singapore, will pull out in 1971. To cope with this situation, the country is bent on industrialization for export promotion. The government is assiduously striving for industrial development through the enforcement of an investment encouragement act (Pioneer Industries Ordinance, 1959), the active induction of foreign capital (for promotion of mergers) and the construction of industrial estates with the result that industrialization is well on its way.

There is little or no agriculture in Singapore, and its small industries unlike rural handicraft industries of Malaysia are developing as modern industries. Most of them produce such consumer products as rubber and plastic products, canned goods, apparel and sundry goods. There are, besides, some small industries producing packaging materials and making repairs for large industries.

For development of small industries, the government organized the Light Industries Service (LIS) in 1963 within the Economic Development Board with financial aid from special funds of the United Nations and technical aid from the International Labor Organization (ILO), and with this agency as the center, small industry policies have come to be implemented. The LIS conducts a wide range of activities, such as the provision of technical expert service, managerial consultations, occupational training and loans, the construction of industrial estates, the operation of model factories and the creation of testing and research facilities (with U. N. aid). Concerning the fostering of small industries in Singapore, as mentioned above, the ILO and other organs of the United Nations provide financial and technical support, which is enticing world-wide attention as an international model case of modernization.

LIS, like comparable organs in Thailand and China, finances small industries with the cooperation of commercial banks, and loans are actually given out of the funds deposited by the government with (three to four) commercial banks. LIS accepts and checks applications for loans and makes recommendations to the banks which appraise property to be offered as collateral and take other procedural steps. A commission is paid to any of the banks, which gives a loan, at the annual rate of 1.5 per cent of interest

accrueing from the loan, and the bank is totally responsible for guaranteeing credit on the loan.

An industry qualifying to receive a loan from LIS is required to have less than 50 employees and fixed assets totalling less than M$250,000 (circa US$81,673). Loans on plant and equipment are given by the hire-purchase system and are repayable within five years, but loans on buildings are not provided. There are no fixed limits to loans, but the accepted limit is M$200,000 (circa US$65,338). They are normally repayable by quarterly installments, but short-term loans are repayable by monthly installments. No assets are required as security for small-sum loans, but tangible assets are required as collateral for other loans. The annual rate of interest is 8.5 per cent including, as mentioned above, a 1.5 per cent commission. As a rule, it is fixed at the lowest of all current interest rates for commercial banks. Thus enterprises receiving loans from LIS are required to do business on a commercial basis, and commercial banks are enabled to participate in LIS' financing program by use of their own funds. Besides, an enterprise desirous of receiving a loan on plant and equipment by the hire-purchase system is required to meet, at the least, 25 per cent of their costs with its own funds. It is also required to keep accounts. Otherwise it must participate in a session of the short-term bookkeeping course conducted by LIS and keep a systematic record of business transactions.

Loans provided from 1964 (when LIS started operations) to August, 1968 totaled M$4,273,000 (circa US$1,395,949) with their balance at M$1,323,000 (circa US$432,211). The average per-loan value was about M$20,000 (circa US$6,533). The loan provided in the period consists of 46.5 per cent for operating capital and the rest (53.5%) for plant and equipment capital. They were mostly given to industries producing metal, plastic, wooden, and textile products. LIS' finance department is staffed by four members who handle about 50 loans a year. A spokesman for the Economic Development Board told us that the finance department of the board would soon take over LIS' business and that with additional private capital an independent development bank would be established. (In August, 1969 it was scheduled to come into existence as the Development Bank of Singapore.) In that case, LIS' business will be taken over by the small industries department of the bank.

Pakistan

Around 1947 when Pakistan was separated from India and became independent, it had few industries worthy to be called such, but about 1950 the government has been active in accelerating industrialization. The second five-year plan which started from 1960 having proved fruitful, boosted economic progress which during recent years has been outstanding. Pakistan's industrialization has been centered on light industries and has reached a stage in which a fairly large variety of consumer products can be domestically produced.

A glance at the industrial structure of Pakistan may lead one to note that cotton, jute and other textile industries hold an overwhelmingly high percentage, followed by edible oil, rice and sugar refining and other food processing industries. There are, besides, tobacco, metal products (for household use), chemical and pharmaceutical products, and ceramics. The industrial lines in which small industries are clustered are textiles, dyeing, knit goods, food processing, beverages, metal products for household use, leather, soap, matches, and plastics. A great number of cottage industries are engaged, among other things, in the production of textiles, leather and other products. (According to a 1960 survey, there were more than 200,000 cottage industries across the country.) The government, as in other Asian countries, has put emphasis on the development of small industries in view of the necessities of effectively utilizing domestic resources, increasing opportunities of employment, promoting exports, regionally dispersing industries and fostering industries capable of supplementing large enterprises. In the third five-year (1965-1970) plan are played up such concrete policies as the construction of industrial estates, the financing of small industries for modernization, the provision of exhibition and sales facilities for small industries and the operation of model factories.

Public organs in charge of small industry policies, one each in East and West Pakistan, are the East and West Pakistan Small Industries Corporations. A similar establishment to the small industry finance organ is the Industrial Development Bank of Pakistan. Activities conducted by the corporations are the construction of industrial estates (19 estates created in the East and 9 in the West), the provision of managerial and technical expert service, the construction and operation of technical guidance and design centers and the making of recommendations

on the financing of industries. Besides it conducts such activities as the construction and operation of factories to be sold later to private industries.

The Industrial Development Bank of Pakistan was established in 1961 by absorbing the business of the defunct Industrial Credit Corporation of Pakistan (created in 1949) and expanding its function, with the objective of providing long-and medium-term loans for medium and small industries. This bank is capitalized at 30,000,000 rupees (circa US$6,299,874) consisting of 51 per cent for government investments and the rest (49%) for private investments. Besides the bank has borrowings from the government and the Central Bank of Pakistan. It also has bills rediscounted and deposits made with the bank. The bank also has loans from the United Kingdom, the Federal Republic of Germany, the United States and Japan, which are appropriated for plants and equipment imported from the countries.

Loans from the Industrial Development Bank of Pakistan are given preferentially to industries using domestic resources, export industries, those producing substitutes for imported products and traditional industries. They are repayable in five to ten years at the annual interest rate of 7 to 8 per cent. From the start of the bank to the end of June, 1967, about 3,100 loans in the total value of around 1,450,000,000 rupees (circa US$304,493,910) were provided by the bank. More than 50 per cent of these went into the cotton and jute textile industries, followed by food processing and machinery industries.

India

India started industrialization very early compared to other countries of Asia. By the time India became independent from the British Empire in 1947, its industrialization had reached a pretty advanced stage, which was furthered through the three five-year plans implemented since its recovery of independence and sovereignty. India has been developing its heavy and chemical industries, above all, since the implementation of the second five-year (1956-1961) plan. Its agricultural and other primary products still account for nearly 50 per cent of its national production, but its level of industrialization is high in Asia with its industrial structure akin to that of an advanced country. In this situation the growth of its small-scale industries is quicker

than in any of the above-mentioned Asian countries with small industries developed not only in the light industrial lines but also in the machinery, metal, chemical and other lines. Recently ancillary subcontracting industries for its large industries have also come into existence.*

The small industries have made a rapid increase since the implementation of the second five-year plan especially when the government's small-industry policies were brought into full swing. Small enterprises with more than ten employees, which were registered with the government as of June, 1964, totaled 57,000. (In India an industry with more than ten employees or 20 when it does not use power-driven machines is obligated to register with the government, and the "small industry" mentioned here means registered industry which has fixed assets totalling, as stipulated, less than 500,000 rupees (circa US$66,667)). Modern small industries have been remarkably developed, above all, in the sewing machine, bicycle and other metal processing and machinery lines, the transistor radio, motor and other electrical appliance and machinery lines and paints, plastics processing and other chemical lines.

In the rural districts, on the other hand, there are a huge number of agro– and cottage industries, and a fairly great part of India's manufactures are ascribed to them. It is estimated that 70 to 80 per cent of India's labor force are in the agro– and cottage industries. Most of the industries run by family units do not use power-driven machines and produce daily necessities and traditional folk art products, such as hand-woven and hand-dyed cotton and silk textiles, carpets, leather products, metal products for household use, pottery, edible oil, ivory, wooden and lapidary products.

The Indian government, as can be noted in the Industrial Policy Resolution adopted in 1948, has long been implementing active policies to foster medium and small industries in recognition of their great role in the increase of opportunities of employment, the impartial distribution of income, the effective employment of resources and techniques and the regional dispersion of industries. At the start, the government's small industry policies laid emphasis on the protection and fostering of agro– and

* For further information on this subject, see "Development of Ancillary Industries," by R. Sundaraman, in APO's publication, "Symposia on Small Business Development," (APO Project No. SYP/II/66), pp. 140-147.

cottage industries through the grant of subsidies, exemption from taxation, and the imposition of restrictions on imports and the products produced by large industries. However, with the progress of industrialization and the development of machinery industries emphasis gradually shifted to modern small industries. Recently the fostering of ancillary industries for large industries has come to carry a great weight among the small-industry policies.

As the main organ in charge of the central government's small industry policies, the Central Small Industries Organization which is within the Ministry of Industry and Supply, is responsible for the over-all formulation of small-industry policies and the adjustment and coordination of these and those formulated by the state governments and other organizations. It also conducts such activities as guidance and training on management and technology and market research. In addition, there is the National Small Industries Corporation Ltd., which provides equipment by the hire-purchase system, acts as intermediary for public procurement and constructs industrial estates. In each state there are the State Small Industries Corporation and the State Finance Corporation, which implement financial and other measures in support of the small industries in the state.

Small industry policies implemented by the central and state governments, in broad terms, are for guidance on management and technology, financial support, the provision of equipment by the hire-purchase system, the construction of industrial estates and the awarding of public procurements. As far as financial support is concerned, nearly all systems of this kind are practiced in India. Its financial systems are the most perfect in Asia.

Small-industry financing systems practiced in India, together with the values of loans provided since the beginning of the second five-year plan in 1956*, are: financing at a low interest rate by the State-Aid-to-Industries Act (loans issued up to March 1962: circa US$31,000,000), financing by the State Finance Corporations (the balance of loans provided as of the end of March 1962: circa US$10,500,000), lease of equipment by the National Small Industries Corporation (the value of equipment provided up to September 1962: US$19,500,000), financing by commercial banks with credit guaranteed by the Reserve Bank of India (the

* Source: "Financing the Small Manufacturer in Developing Countries" by R. W. Davenport

balance of loans provided as of the end of March 1962: circa US$13,200,000), equity financing by the state government (circa US$800,000), provision of land and buildings on lease or installment terms (investments made up to March 1962: circa US$26,900,000) and financing by industrial cooperatives (circa US$1,900,000).

Some of the above-mentioned systems will be explained in brief.

(1) The State-Aid-to-Industries Act

This system was put into effect as early as the 1920s, but in the middle of the 1950s its function was expanded and intensified. It is the most important of all the small industry finance systems effected by the Indian government. Financing by the system is taken charge of by the state governments. Two-thirds of a loan by the system is given by the central government and the remaining one-third by the state government. Terms slightly differ from state to state. Loans to the maximum value of 100,000 rupees (circa US$13,333) are repayable within a period of at most 7 to 20 years and ordinarily in 3 to 7 years. Per-loan values ordinarily range from US$555 to US$1,111. The rates of interest on loans of more than and less than 500,000 rupees (circa US$66,667) are low, at 5 to 6 per cent and 2 to 3 per cent. When loans are duly repaid, the interest paid is rebated in some states at the annual rate of 1 to 2 per cent. When a loan is worth more than 5,000 rupees (circa US$667), it is required to use collateral such as real estate, machines and/or merchandise which are usually appraised at less than 75 per cent of the value.

(2) State Finance Corporations

In 15 of India's states there are State Finance Corporations established by the State Finance Corporation Act (enacted in 1951) to cater to the financial needs of not only small but also medium and large enterprises. The financing of small enterprises through the corporations is rather small. (The loans provided for small industries in the 15 states as of the end of March, 1962 account for about 20 per cent of the balance of loans provided by all corporations.) The corporations are capitalized at an average of 10,000,000 rupees (circa US$1,333,333). The average figure for all corporations consists of 48 per cent for investments from

each state government, 18 per cent for those from the Reserve Bank of India, 33 per cent for those from other financial organs and the rest or 2 per cent for those from private sources. Nearly 30 per cent of the average value of loans provided by the corporations are derived from the state governments' investments and about 40 per cent from the bonds issued by the corporations and guaranteed by the state governments.

Loans from the State Finance Corporations are given to the maximum value of 2,000,000 rupees (circa US$266,667) and the minimum of 10,000 rupees (circa US$1,333). The average per-loan value is about US$52,778 (the figure for small industries alone is about US$18,056). The annual rate of interest on loans ranges from 6 to 7 per cent (when the loans are duly repaid the interest paid is rebated at the annual rate of 0.5%). Movable or immovable assets are usually used as security. Real estate when used as security is assessed at less than 50 per cent of the value.

(3) Lease of Equipment by the State Small Industries Corporations

Established in 1955, the State Small Industries Corporations are mainly engaged in the lease of equipment, particularly those which are usually difficult for small enterprises to obtain due to the foreign exchange situation prevailing in India. Since its enforcement, this system has proved fairly successful, and by the middle of 1964 nearly US$25,000,000 worth of equipment had been provided by the hire-purchase system for more than 4,000 small enterprises. Leasing terms usually require a down payment equal to 5 to 20 per cent of the value of equipment to be leased with the remainder of the value plus interest to be repaid within 7 years by bi-annual installments at the annual interest rate of 4.5 per cent when the value is less than 15,000 rupees (US$2,000) or 6 per cent when the value exceeds that amount. (Also, a commission equal to 5% of the value of equipment is charged.)

(4) Provision of Land and Buildings on Lease or Installment Terms

This system brought into effect in 1955 enables a state government to construct an industrial estate and provide land and buildings on lease or installment terms which are needed by small enterprises. It is a system of financing small industries on a

long-term basis. For effective operation of the system, the central government makes investments in the form of loans. While the second five-year plan was implemented, it made investments, totalling 130,000,000 rupees (circa US$17,333,333), in the construction of estates.

As of the end of the period 68 estates were completed, 37 more were under construction, and still 107 more were being planned. According to the third five-year plan, the central government has increased its investments in this project to 300,000,000 rupees (US$40,000,000) to construct about 300 estates.

(5) Short-Term Financing by the State Bank of India

Started in 1956, this system enables the State Bank of India, the largest commercial bank of the country (the majority of whose shares are held by the central bank), and affiliated banks to give short-term loans to small enterprises. (In 1962 the State Bank of India and affiliated banks had a total of 1,528 establishments or 23 per cent of India's banking establishments.) Short-term loans given to small enterprises by this system in 1961 account for 16 per cent of all the loans provided by India's commercial banks for small enterprises. The system plays a major role in India's small-industry financing.

APPENDIX

SMALL INDUSTRIES FINANCING IN KOREA, THE PHILIPPINES, THAILAND, INDIA AND NEPAL

SMALL INDUSTRIES FINANCING IN THE REPUBLIC OF KOREA

The Medium Industry Bank

Ratio of loan to total fund requirements: The ratio of the loan to the fund requirements of a borrower cannot exceed 50 per cent for facility funds and 70 per cent for working capital. In addition, it must be noted that the existing facilities held by a borrower may be regarded as his equity capital.

Ratio for loan to collateral:

a) Real estate, plant and equipment – 80 per cent of the appraised value and under.

b) Raw materials, semi-finished goods, and finished goods – 80 per cent of or below the appraised value.

c) Securities and claims: National bonds and kindred bonds – 90 per cent of or below the market value. Stock – 70 per cent of or below market value. Bank-deposits – 100 per cent; adjudicated claims – 90 per cent and below.

Credit guaranteed loan: The credit guaranteed loans are extended to those borrowers who pay in credit guarantee reserve fund established within the bank but which do not have sufficient collateral to mortgage, and only if they have such sound financial standing and trustworthiness that they can afford to discharge their obligations. The maximum amount of loan is: No more than ten times the capital subscribed in case of loans to small industry cooperatives, and 500,000 won (US$1,820) for the loans to small entrepreneurs.

Personal credit: The credit loans are made to those who are considered by the president of the bank to have such satisfactory trustworthiness and financial standing that they can afford to repay the loan. The maximum amount of an individual loan is: 300,000 won (US$1,090) for the loans to small entrepreneurs provided that the maximum amount of an overdraft is 500,000 won, and 3,000,000 won (US$10,920) for the loans to local governments and other non-profit seeking juridical persons or entities.

Maturity: Maturity varies according to the type of loans. Maturity of a loan may be lengthened at the discretion of the president of the bank. For small industry fund loans, the period for facility funds is five years, and for working capital funds short-term loans (one year intermediate term loan) the period is 2 1/2 years. For general fund loans and business fund loans to small industry cooperatives the period is one year. (From a report by Chang Ha Lee, Korea Productivity Center)

Definition of Small-Scale Industry

According to the Medium Industry Bank Act of August, 1961, "small industry" is a manufacturing enterprise employing more than five but less that 100 employees, and mining enterprises employing more than five but less than 200 employees, and with assets of less than 20,000,000 won in both manufacturing and mining enterprises. The definition has been revised since passage of the act. Furthermore, according to the Small Industry Cooperative Act of July, 1963, "small industry" was defined as having five to 200 employees in manufacturing enterprises and five to 300 in mining enterprises, and with total assets of up to 50,000,000 won in both cases. According to the original usage of the MIB definition, both requirements had to be met; the second definition could be applied only if one of the conditions was met.

SMALL INDUSTRY FINANCING IN THE PHILIPPINES

Definition of Small-Scale Industry

In the survey on "Social Implications of Small-scale Industries in the Philippines" conducted in 1959 by the National

Economic Council in collaboration with the Bureau of Census and Statistics, the UNESCO National Commission of the Philippines, and the Statistics Center of the University of the Philippines, a small-scale industry was defined as a "manufacturing establishment employing 20 to 50 workers and with capitalization not exceeding 4,000 pesos (US$1,025) per worker." On the other hand, in the 1962 edition of the Annual Survey of Manufacturers, by the Bureau of Census and Statistics, large manufacturing establishments were defined as establishments with an expected average total employment of 20 workers or more.

The Ateneo University's Bureau of Small Business classifies establishments with less than 100 workers as "small business," within which grouping, those establishments with less than ten employees are considered "very small," those with ten to 40 workers are the "central group," and those with 50 to 99 "small to medium." Supplementing this quantitative concept of a small business are functional characteristics based on the nature of its management:

> Firms that do not have and cannot afford to have specialized systems of management, i.e., the owner/manager has to face the daily problems and perplexities of doing business without assistants.
>
> The small business usually finds itself handicapped in obtaining capital and credit through the organized securities markets.
>
> The small business is not dominant in its field of operation; it has no special bargaining strength in buying or selling in a major market.

Thus, except for industries falling under the category of a cottage industry, there is at present no clear-cut definition of a small industry. Neither the government agencies concerned, such as the National Economic Council or the Department of Commerce and Industry, nor the private business sector through the Philippine Chamber of Industries, has come up with an official definition of a small industry for the purpose of granting any special treatment or priority in terms of assistance, financial or otherwise. Only those falling under the classification of "new and/or necessary" industry are given priority, whether the concern be large or small.

Financing

The financial resources network of the country today present a very impressive picture. From a handful of entities before World War II, the financial community has mushroomed into a national network of banks and financial houses.

By 1964, there were 36 commercial bank head offices or a total of 256 banks inclusive of branches with total resources of 5.92 billion pesos (US$1,517,950,000) (an increment of 2.2 billion pesos (US$564,000,000) over the aggregate resources of 27 banks two years before). In the same year, there were 24 development banks with estimated resources of 1,109 million pesos (US$284,360,000) (these banks are all sponsored by the Development Bank of the Philippines).

Supplementing this array of financial institutions are the 283 rural banks with resources of 245,000,000 pesos (US$62,820,000) the 166 privately-owned insurance companies and offices; the ten savings and mortgage banks and branches; the Government Service Insurance System; the Social Security System; The Philippine National Bank; the Private Development Corporation of the Philippines; the Bancom Development Corporation; and the National Investment and Development Corporation.

But inspite of this impressive gamut of financial resources in the country, the small industry sector still finds much difficulty in acquiring financial assistance especially from the private sector. The private development banks have concentrated their assistance on multi-million ventures while the commercial banks have functioned mainly as sources of short-term credit which are granted only after presentation of securities or collateral in which the small industry sector is wanting. This collateral orientation of commercial banks is understandable because of their concern for the safety, liquidity and profitability of their operations. Of late, however, the attitudes of commercial banks show a shift from dependence on collateral requirements to the appreciation of the economic feasibility of business ventures.

Unlike some other countries, the Philippines does not have any specific government financial institution specifically charged with the development of small industries. The government agency charged with the responsibility and power of assisting the development of industry as a whole is the Development Bank of the Philippines which implements its functions on the basis of the

need of the country for a certain industry, and not its size. There are no available statistics based on the size of the industry to show the amount of assistance given. Using the size of the loan given as a basis, the amount of assistance released may however be estimated. Using alone the arbitrary assumption that any single loan to small industry would not exceed 20,000 pesos, the number of loan recipients for 1965 would be 680 establishments with a total amount of 3,362,221.50 pesos (US$862,000) or approximately 3 per cent of the entire industrial loans made in 1965. (From a report presented by Ramon V.J. Siytongco, Jr., Operation Brotherhood International Inc.).

SMALL INDUSTRY FINANCING IN THAILAND

In order to make low-interest credit facilities available to small industries, a government loan of 10,000,000 bahts (about US$1,000,000) a year for the next three years starting from Fiscal Year 1964 has been made available by the Thai government for this purpose to two local commercial banks, namely, the Agricultural Bank and the Provincial Bank, at a very low interest rate of 3 per cent per annum. The banks will contribute another 10,000,000 bahts each year and then loan out the total of 20,000,000 bahts (about US$1,000,000) annually to deserving small industries at the interest rate of 9 per cent per annum. For the purpose of screening applications to the banks, a Loan Office for Small Industry Development was established within the Department of Industrial Promotion in March, 1964. This office makes a techno-economic appraisal of each application and the office's recommendations concerning the application are submitted to a Loan Board composed of the Director General of the Department of Industrial Promotion, as chairman, representatives of the Ministry of Finance, the National Economic Development Board, the Budget Bureau, and the managers of the two banks. (From a report presented by Winch Gonechanart, Senior Engineer, Ministry of Industry)

Role of State Bank of India in the Financing of Small Scale Industry

In the days of the Imperial Bank of India, the bank's advances were mainly confined to traders and organized industries and very little was done to provide financial assistance to small scale industrialists. With the nationalization of the Imperial Bank of India into the State Bank of India in 1955, there has been a change in the outlook of the bank's policies consistent with the policies of industrial development of the government of India with a view to assist even the small industrialists to settle themselves firmly and to develop further. With this end in view the State Bank of India started a scheme known as the liberalized scheme for financing of small-scale industries in the year 1956. Although the scheme has been called a liberalized one, there was nothing in the scheme which can be said to be inconsistent with normal banking principles. It was a liberalization of attitude rather than banking principles.

The liberalized scheme's provisions are as follows:

1. Basing advances on the production needs of a unit and not on the means; laying stress on efficiency of the unit, marketability of its products and integrity of the proprietors.

2. Widening the range of acceptable industrial raw materials and finished goods. Anything that sells can be and should be financed.

3. Considering grant of unsecured advances in the case of very small units.

4. Tailoring the credit facilities extended to suit the need of the units. Margin requirements are relaxed in individual cases.

5. Keeping the interest rates at the lowest possible levels. In the initial stages, the liberalized scheme – then known as the Pilot Scheme – was limited to certain select centers. Based on our experience this scheme was extended to all the bank's branches in India effective from January 1, 1959. The essence of this

scheme is that every aspect from the stage of acquisition of raw materials, stage of marketing and realization of sale, proceeds should be financed by us.

The long-term financial needs of a small scale industry are taken care of by the State Governments and State Financial Corporations. The National Small Industries Corporation and the State Small Industries Corporations extend hire purchase facilities for the acquisition of machinery. The State Bank of India has been mainly catering to the working capital needs of small scale units.

Credit facilities for the items of expenditure such as salaries, wages, selling expenses, power charges, rent, insurance etc. can be provided by the bank. We normally expect units to have sufficient resources to meet the overhead costs and the margin required to be maintained on advances taken from the bank. Although this is the general procedure there are exceptions and when units find it difficult to provide the margin required on advances sanctioned to them, the bank comes to their assistance by providing clean accommodation to meet margin requirements subject to repayment over a specified period from profits earned.

The various credit facilities which the bank offers to small scale units are described below.

1. The bank provides advance payments for purchase of raw materials by way of clean overdrafts.
2. The bank allows clean overdrafts for retirement of bills covering supplies of raw materials; also against trust letters pending clearance and storage of the goods.
3. The bank grants pledge advances against raw materials, stocks-in-process or semi-finished goods and finished goods. Wherever materials cannot be placed in godowns, open type pledge loans are granted.
4. Where finished goods have to be consigned to customers in advance of drawing bills on them, permission is granted to take release of such goods under trust letter facility, pending adjustment eventually by submission of bills covering the consignment.
5. Finance is also provided for sales on credit, either by way of bill discount facilities or where bills are not feasible, by way of overdrafts against evidence of dispatch of goods.

The bank has also undertaken to provide finance on a term basis for meeting the long-term financial needs of industrial units. In addition loans are also given on a term basis up to ten years for investment of a capital nature in land and buildings or in machinery and equipment, to assist the expansion/modernization of small-scale units and also the setting up of new industrial units in the small-scale sector. These loans are payable in convenient installments over a fixed period, depending on the profit accruals of the unit. (From a report by M. Krishnamurthy, Development Officer, State Bank of India, Madras)

Financing of Small Industries

In India governmental and semi-governmental institutions have helped to increase the total availability of credit – both long and short term – to small scale units through various agencies such as state governments (under State Aid to Industries Act), state financial corporations, the State Bank of India and its subsidiaries, the National Small Industries Corporation and others. However, provisions through these sources are not adequate to meet the growing needs of the small scale sector. The increase in the credit facilities to small scale industries has not kept pace with the increase in dimensions of the small scale industries. Furthermore, the financial assistance made available to the small scale sector is very meagre in comparison with that to the large scale sector vis-a-vis their respective contributions to industrial output. This is brought out by reliable estimates about the government and private investment in the large and small industries vis-a-vis their own contribution. According to these estimates for every rupee provided by the government about Rs. 5 was being put by private interests in the large scale sector. On the other hand for every rupee invested by the combined resources of National Small Industries Corporation Ltd. and the government towards total capital, the small entrepreneurs have invested about 8.2 times themselves from the combined savings of friends, relatives and money lenders.

This high proportion of private investment to institutional investment cannot be expected to continue during the fourth plan as the resources of small entrepreneurs are already strained to the maximum extent. It is, therefore, necessary for the government to strengthen the institutional resources by augmenting their finances for development of small scale industries.

Long Term Loans

The State Financial Corporations do not generally advance sufficient loans to small scale industries out of their own funds. In this connection it is suggested that the government should lay down the rule that the corporation should lend out at least twice as much as they lend under the agency agreement. To encourage this, state governments should guarantee loans advanced by State Financial Corporations from their own funds as it is done in Maharashtra State.

The procedures and formalities observed by the State Financial Corporation in scrutinizing the applications and granting the loans are cumbersome causing great delay in sanction. This procedure needs simplification. It is necessary that the State Financial Corporations should adopt a more liberal attitude by cultivating a developmental outlook. If necessary they should set up their own technical wings to certify competency of the unit for eligibility for loans.

Short Term Loans

The State Bank of India and its subsidiaries are trying to accommodate short term working capital requirements for holding stocks of raw materials, finished goods etc. and for meeting the day-to-day needs for running small enterprises. However, the magnitude of the short term loans offered by the State Bank is very low compared to the requirements of the small scale sector. It does not need repetition here that the small scale sector is contributing nearly 40 per cent to the industrial output of the country.

The State Bank should therefore have a more positive attitude and should be liberal in extending short term credit. In particular the agents of the bank and its branches should be trained to adopt a servicial attitude to objectively help the growth of small scale industries. According to a rough estimate, the dependence of small industries on primary sources for their working capital requirements is to the extent of 50 per cent. This clearly indicates that the State Bank and other commercial banks have yet to make sufficient progress in bridging this gap. To achieve this the State Bank should popularize its schemes of financial assistance to small units through wide and extensive publicity.

The commercial banks also have to play a very important role in extending institutional credit to small scale units. So far they have been very conservative in their attitude and have not come forward in a bold way to assist small industry. It is not unfair to say that bankers, who are finance managers, are essentially commercial-minded and therefore are ultra-conservative in financing small industry. Banks usually adopt a micro-viewpoint limited to their annual balance sheet and the statement of profit and loss. Very few bankers approach the problem from the micro-view-point of the national economy. As far as possible the capacity of the unit, its technical competence and marketability of the product should be the basis for granting working capital loans rather than security. The privileges of the guarantee scheme are extended in order to encourage them to give credit liberally to small units.

Cooperative banks should also enter the field of financing individual small entrepreneurs besides financing industrial co-operatives.

Setting up Small Business with Reference to Finance

The experience of India's Small Industries for the last decade of development highlights certain important features of how the availability of credit can influence small industry development.

While at the initial stages, the government should directly provide financial assistance, the objective should be to channel it through suitable institutions. Separate institutions for financing long term needs are necessary while commercial banks should be induced to finance the working capital requirements by giving subsidies, providing refinancing facilities, introducing credit guarantee schemes and other measures.

In remote and certain backward areas and even in the urban areas, many times, the small scale entrepreneurs have to depend on the private loans from money lenders at exorbitant rates of interest or on loans and borrowings from their friends and relations.

Even among the small scale units, the mechanized units located right in the heart of urban industrial centers get a preference from institutional sources for loans. The smaller ones run mostly on proprietary lines and are located away from these centers. They do not have any access to these institutional sources of finance although they may otherwise deserve such assistance. It is

therefore necessary to extend the scope of such institutional agencies to give them a wider coverage.

The government should come out with schemes of participation in equity capital particularly in areas where entrepreneurship is lacking due to shortage of capital. Such schemes may be gradually replaced by private or institutional financing as the momentum gathers for development.

Finally it must be recorded that financial assistance by itself may not achieve any considerable degree of success. Small units also need other types of assistance like technical assistance, managerial assistance, marketing assistance, sufficient raw materials of appropriate quality etc. These facilities should be provided simultaneously for maximum success. (From a report by A. G. Nadkarni, Research Officer, Federation of Associations of Small Industries in India)

SMALL INDUSTRY FINANCING IN NEPAL

As for the development of small business in the country, the role of governmental and semi-governmental agencies are much more active since the first five year plan (1956/57 to 1960/61). But the efforts undertaken in financial assistance to small entrepreneurs have been in effect since 1961. Financial assistance activity by private organizations is negligible. Small loans required by small business are not available through the banking system, though, there are all together four banks, namely, Nepal Bank Ltd., Nepal Rastra Bank, Nepal Cooperative Bank Ltd. and Nepal Commercial Bank.

Nepal Bank, established in 1937 as a commercial bank, provided short term loans to small enterprises, in the form of working capital during World War II, but discontinued this activity due to setbacks suffered by industries after the war.

Nepal Rastra Bank, established in 1956, has provisions for loan activities to small business, but since its inception, it has not yet advanced any credit to industries.

Nepal Cooperative Bank was established to provide financial assistance to small enterprises and agriculture based on cooperative principles. Since the government launched the agricultural reformation in the country, all its activities have been diverted towards agricultural finance.

The recently incorporated Nepal Commercial Bank, being a purely commercial bank, has no provisions to advance loans for industries.

At present, there are only two agencies which deal with financial assistance required for expansion of the establishment of small industries.

The Nepal Industrial Development Corporation, a semi-governmental organization was established mainly to provide financial assistance to industries. Its activities include advancing the loans needed for the promotion of small business. It also deals with the loan application above the ceiling of Rs. 50,000,000 (at 1966 rates US$6,580) only for fixed assets. But in some cases, it entertains loans for working capital also. It provides loans up to the extent of 65 per cent of the total evolvement in fixed capital. The duration of long term loans by the bank is up to 15 years. The rate of interest charged against the loan is 7-1/2 per cent per annum. The loan amount is repayable in installment as per agreement.

The other agency is the Department of Cottage and Small Industries of His Majesty's Government of Nepal. The loan activity of this department is mainly to advance short, medium and long term financing to small entrepreneurs up to the extent of Rs. 200,000 (at 1966 rates US$20,300) both in fixed assets and working capital. It advances loans up to 75 per cent of the total investment of the undertakings. This loan is also repayable in installment basis as per agreement. The maximum duration of loans advanced by this department is up to ten years. The rate of interest is 6-1/2 per cent per annum, but in order to provide greater incentive and to ensure one time repayments, 2-1/2 per cent is given as a rebate to entrepreneurs when the loan is returned on or before due date. A good number of small undertakings have been added by these financial facilities and incentives and repayment conditions are found to be regular and satisfactory.

Similar to this loan activity, the Department of Cottage and Small Industries, has introduced the "hire-purchase scheme." The main objective of this scheme is to make available the mostly needed machineries and equipment for modernization and to increase productivity of small industries. Machinery and equipment are given to small entrepreneurs and the cost of the assets are repayable in installments as per agreement. The interest is charged against the cost of the machinery and equipment at the

rate of 6-1/2 per cent per annum. In this scheme also, there is provision to give 2-1/2 per cent as rebate in interest, in order to ensure repayment on time. This scheme also provides the facility to modernize or expand, or establish a new small business. Several old small entrepreneurs were benefited and several new enterprises were set up by this facility.

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